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FINANCIAL STATEMENT



Financial Statements with  
Independent Auditor's Report  
June 30, 2021

LCMS Foundation  
TODAY | TOMORROW | FOREVER

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## Independent Auditor's Report

Board of Trustees  
The Lutheran Church–Missouri Synod Foundation  
St. Louis, Missouri

### Report on the Financial Statements

We have audited the accompanying financial statements of The Lutheran Church-Missouri Synod Foundation (the "Foundation"), which comprise the statement of financial position as of June 30, 2021, the related statement of activities and cash flows for the year then ended, the statement of functional expenses for the year ended June 30, 2021, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Foundation's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the statement of financial position of The Lutheran Church-Missouri Synod Foundation as of June 30, 2021, and its changes in net assets, and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Prior Period Financial Statements**

The financial statements as of June 30, 2020, were audited by Brown Smith Wallace, LLP, whose practice became part of Armanino<sup>LLP</sup> as of August 1, 2021, and whose report dated September 17, 2020, expressed an unmodified opinion on those statements.

*Armanino LLP*

Armanino<sup>LLP</sup>  
St. Louis, Missouri

September 15, 2021

# THE LUTHERAN CHURCH—MISSOURI SYNOD FOUNDATION

## Statements of Financial Position

June 30, 2021 and 2020

(In Thousands)	2021	2020
<b>ASSETS</b>		
Cash and cash equivalents	\$ 19,764	\$ 15,158
Accrued interest and dividends receivable	1,811	1,680
Investments	1,111,136	865,924
Real estate held for sale	913	1,028
Notes and loans receivable	520	543
Land, building, and equipment, net of accumulated depreciation and amortization	1,008	1,125
Real estate held in custody	5,828	5,829
Beneficial interest in charitable trusts	1,451	1,170
Other assets	6,561	7,649
<b>TOTAL ASSETS</b>	<b>\$ 1,148,992</b>	<b>\$ 900,106</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Liabilities</b>		
Accounts payable and accrued expenses	\$ 719	\$ 748
Trust and other liabilities due to:		
Life Income	166,017	138,695
Gift Annuity	18,411	18,372
Held in: Endowment	204,878	159,204
Custodial	675,460	513,797
Agency	1,964	1,457
Total Trust and Other Liabilities	1,066,730	831,525
<b>Total Liabilities</b>	<b>1,067,449</b>	<b>832,273</b>
<b>Net Assets</b>		
Without Donor Restrictions		
Undesignated	14,160	12,488
Foundation Designated	40,278	34,237
	54,438	46,725
With Donor Restrictions		
Time/Event Restrictions	12,619	6,903
Perpetual Funds	14,486	14,205
	27,105	21,108
<b>Total Net Assets</b>	<b>81,543</b>	<b>67,833</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 1,148,992</b>	<b>\$ 900,106</b>

The accompanying notes are an integral part of these financial statements.

# THE LUTHERAN CHURCH—MISSOURI SYNOD FOUNDATION

## Statement of Activities

Year ended June 30, 2021

(In Thousands)	Without Donor Restrictions	With Donor Restrictions	Total
<b>Support and Revenue:</b>			
Direct gifts	\$ 482	\$ -	\$ 482
Gifts-new agreements	3,668	83	3,751
Fee revenue	7,653	-	7,653
Investment income	2,208	-	2,208
Other income	780	-	780
Net assets released from restrictions	100	(100)	-
<b>Total support and revenue</b>	<b>14,891</b>	<b>(17)</b>	<b>14,874</b>
<b>Operating Expenses:</b>			
Planned giving	3,327	-	3,327
Trust services	1,914	-	1,914
Donor-advised, insurance services	3,562	-	3,562
Marketing and communication	839	-	839
Investment services	910	-	910
Management and general	2,046	-	2,046
<b>Total operating expenses</b>	<b>12,598</b>	<b>-</b>	<b>12,598</b>
<b>NET OPERATING INCOME</b>	<b>2,293</b>	<b>(17)</b>	<b>2,276</b>
<b>Other Income:</b>			
Net realized and unrealized gains on investments and real estate	3,438	-	3,438
Change in value of irrevocable deferred gifts	1,982	6,014	7,996
<b>TOTAL OTHER INCOME</b>	<b>5,420</b>	<b>6,014</b>	<b>11,434</b>
<b>CHANGE IN NET ASSETS</b>	<b>7,713</b>	<b>5,997</b>	<b>13,710</b>
<b>Net assets at beginning of year</b>	<b>46,725</b>	<b>21,108</b>	<b>67,833</b>
<b>Net assets at end of year</b>	<b>\$ 54,438</b>	<b>\$ 27,105</b>	<b>\$ 81,543</b>

The accompanying notes are an integral part of these financial statements.

# THE LUTHERAN CHURCH—MISSOURI SYNOD FOUNDATION

## Statement of Activities

Year ended June 30, 2020

(In Thousands)	Without Donor Restrictions	With Donor Restrictions	Total
<b>Support and Revenue:</b>			
Direct gifts	\$ 1,382	\$ -	\$ 1,382
Gifts-new agreements	3,894	260	4,154
Fee revenue	6,752	-	6,752
Investment income	849	-	849
Other income	757	-	757
Net assets released from restrictions	272	(272)	-
<b>Total support and revenue</b>	<b>13,906</b>	<b>(12)</b>	<b>13,894</b>
<b>Operating Expenses:</b>			
Planned giving	3,386	-	3,386
Trust services	1,926	-	1,926
Donor-advised, insurance services	4,407	-	4,407
Marketing and communication	867	-	867
Investment services	1,000	-	1,000
Management and general	2,078	-	2,078
<b>Total operating expenses</b>	<b>13,664</b>	<b>-</b>	<b>13,664</b>
<b>NET OPERATING INCOME</b>	<b>242</b>	<b>(12)</b>	<b>230</b>
<b>Other Income (Loss):</b>			
Net realized and unrealized gains on investments and real estate	(201)	-	(201)
Change in value of irrevocable deferred gifts	196	(664)	(468)
<b>TOTAL OTHER INCOME (LOSS)</b>	<b>(5)</b>	<b>(664)</b>	<b>(669)</b>
<b>CHANGE IN NET ASSETS</b>	<b>237</b>	<b>(676)</b>	<b>(439)</b>
<b>Net assets at beginning of year</b>	<b>46,488</b>	<b>21,784</b>	<b>68,272</b>
<b>Net assets at end of year</b>	<b>\$ 46,725</b>	<b>\$ 21,108</b>	<b>\$ 67,833</b>

The accompanying notes are an integral part of these financial statements.

**THE LUTHERAN CHURCH—MISSOURI SYNOD FOUNDATION**

**Statement of Functional Expenses**

Year ended June 30, 2021

(In Thousands)	Program Services						Supporting Services	Total Expenses
	Donor-Advised/			Marketing & Communication	Investment Services	Total Program Expense	Management & General	
	Planned Giving	Trust Services	Insurance Services					
Salaries and Wages	\$ 2,057	\$ 1,235	\$ -	\$ 386	\$ 529	\$ 4,207	\$ 1,026	\$ 5,233
Employee Benefits	645	382	-	110	150	1,287	182	1,469
Payroll Taxes	126	90	-	29	40	285	59	344
Travel and Meeting	94	1	-	1	9	105	5	110
Staff Development/Resources	31	9	-	2	-	42	35	77
Professional Services	64	16	-	23	135	238	165	403
Information Technology	9	11	-	79	-	99	315	414
Business Services	81	30	-	54	-	165	44	209
Equipment	1	-	-	9	-	10	35	45
Depreciation	24	-	-	-	-	24	101	125
Supplies, Repairs & Maintenance	14	8	-	-	-	22	9	31
Insurance	110	59	-	18	21	208	30	238
Advertising and Promotion	-	-	-	106	-	106	-	106
Telephone	10	3	-	1	1	15	2	17
Other	61	70	-	21	25	177	38	215
Distributions	-	-	3,562	-	-	3,562	-	3,562
<b>Total Functional Expenses</b>	<b>\$ 3,327</b>	<b>\$ 1,914</b>	<b>\$ 3,562</b>	<b>\$ 839</b>	<b>\$ 910</b>	<b>\$ 10,552</b>	<b>\$ 2,046</b>	<b>\$ 12,598</b>

The accompanying notes are an integral part of these financial statements.



# THE LUTHERAN CHURCH—MISSOURI SYNOD FOUNDATION

## Statement of Functional Expenses

Year ended June 30, 2020

(In Thousands)	Program Services						Supporting Services		Total Expenses
	Donor-Advised/			Marketing & Communication	Investment Services	Total Program Expense	Management & General		
	Planned Giving	Trust Services	Insurance Services						
Salaries and Wages	\$ 2,085	\$ 1,245	\$ -	\$ 358	\$ 582	\$ 4,270	\$ 890	\$ 5,160	
Employee Benefits	645	355	-	96	143	1,239	179	1,418	
Payroll Taxes	122	89	-	26	42	279	54	333	
Travel and Meeting	139	3	-	8	17	167	59	226	
Staff Development/Resources	28	11	-	2	27	68	8	76	
Professional Services	66	30	-	167	136	399	173	572	
Information Technology	9	11	-	32	-	52	271	323	
Business Services	88	23	-	43	-	154	44	198	
Equipment	-	2	-	11	-	13	34	47	
Depreciation	25	-	-	-	-	25	102	127	
Supplies, Repairs & Maintenance	21	2	-	1	-	24	4	28	
Insurance	94	61	-	12	21	188	30	218	
Advertising and Promotion	-	-	-	82	-	82	2	84	
Telephone	6	5	-	1	2	14	3	17	
Other	58	89	-	28	30	205	225	430	
Distributions	-	-	4,407	-	-	4,407	-	4,407	
<b>Total Functional Expenses</b>	<b>\$ 3,386</b>	<b>\$ 1,926</b>	<b>\$ 4,407</b>	<b>\$ 867</b>	<b>\$ 1,000</b>	<b>\$ 11,586</b>	<b>\$ 2,078</b>	<b>\$ 13,664</b>	

The accompanying notes are an integral part of these financial statements.

**THE LUTHERAN CHURCH—MISSOURI SYNOD FOUNDATION**

**Statement of Cash Flows**

Years ended June 30, 2021 and 2020

(In Thousands)	<u>2021</u>	<u>2020</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$ 13,710	\$ (439)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	125	128
Net realized and unrealized (gain) loss on investments	(3,438)	197
Changes in assets and liabilities		
Accrued interest and dividends receivable	(131)	(141)
Investments	(240,165)	(34,603)
Real estate held for sale and in custody	116	(625)
Notes and loans receivable	16	7
Beneficial interest in charitable trusts	(281)	96
Other assets	1,088	702
Accounts payable and accrued expenses	(29)	79
Trust and other liabilities due to:		
Life income and gift annuities	27,361	(9,728)
Endowment, custodial, and agency accounts	207,844	49,288
<b>Net cash provided by operating activities</b>	<b>6,216</b>	<b>4,961</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Net (additions) to capital assets	(8)	(57)
Proceeds from sale of fixed assets	-	11
Payment of notes and loans receivable	7	42
Purchase of investment securities	(3,161)	(3,489)
Proceeds from sale of investment securities	1,552	2,739
<b>Net cash used in investing activities</b>	<b>(1,610)</b>	<b>(754)</b>
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>4,606</b>	<b>4,207</b>
<b>Cash and cash equivalents, beginning of the year</b>	<b>15,158</b>	<b>10,951</b>
<b>Cash and cash equivalents, end of the year</b>	<b>\$ 19,764</b>	<b>\$ 15,158</b>

The accompanying notes are an integral part of these financial statements.

# THE LUTHERAN CHURCH–MISSOURI SYNOD FOUNDATION

## Notes to Financial Statements

June 30, 2021

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### Note A - Summary of Organization and Significant Accounting Policies

The Lutheran Church–Missouri Synod Foundation (the “Foundation”) assists individuals and church ministries by raising and managing gifts and assets to support Christ’s mission through The Lutheran Church–Missouri Synod (the “Synod”) and to accomplish personal and corporate stewardship goals. The Foundation is administered by a Board of Trustees that are elected by the members of the Foundation.

Within the Foundation, trust services, investment services, and gift planning services are provided to the Synod and related agencies and entities. Within customer support, trust services generate trustee fees. Investment services within the Finance Department generate management fees. Gift planning services operate on a partial cost reimbursement basis.

The Foundation carries out its investment management services through various common funds to invest the assets entrusted to the Foundation. A common fund pools the assets of numerous smaller accounts to provide for greater diversification and ease of investment management. Holders of a common fund are called participants. Participants buy and sell units of the common fund asset. In order to determine the price per unit of a common fund, all assets held by the common fund (which can include individual securities or units of other common funds) are valued as of the end of the month (the valuation date). This value is divided by the total number of units held by the participants in the common fund to determine the per unit value. Transactions in the common fund (either purchases or redemptions) are calculated based on the per unit value on the valuation date.

During the valuation process, the common funds accrue income and expenses for the valuation period. The net income to the funds is divided by the total number of units held by participants for the valuation period to establish the income per unit factor. Each participant receives an allocation of the net income determined by multiplying the income per unit factor times the number of units held by the participant of the common fund. Net realized and termination gains in Foundation common funds are also calculated and distributed annually to the participants.

The Foundation maintains a Statement of Investment Policies and Objectives that governs the overall investment policy, objectives, structure, and guidelines for the Foundation’s investments. Included in the guidelines are restrictions governing the management of all investments held in separate accounts specifically for the benefit of the Foundation. All investment managers are monitored for adherence to the Statement of Investment Policies and Objectives by the Foundation with the assistance of its investment consultant.

# THE LUTHERAN CHURCH—MISSOURI SYNOD FOUNDATION

## Notes to Financial Statements - Continued

June 30, 2021

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### Note A - Summary of Organization and Significant Accounting Policies (Continued)

#### **Basis of Accounting and Presentation**

The financial statements have been prepared using the accrual basis of accounting. The Foundation is required to report information regarding its financial position and activities as net assets without donor restrictions or net assets with donor restrictions.

#### ***Net Assets Without Donor Restrictions***

Net assets available for use in the general operations and not subject to donor (or certain grantor) restrictions. Net assets include revenue from fees, certain investment income and all gifts, grants and contributions not restricted by the donor. At the discretion of the Board, net assets without donor restrictions are available for use in the Foundation's operations.

#### ***Net Assets With Donor Restrictions***

Net assets subject to donor-imposed restrictions are either temporary or perpetual in nature. Temporary donor-imposed restrictions will be met by events specified by the donor or the passage of time. Perpetual donor-imposed restrictions are indefinite, with the income from the contribution being available for expenditure, as defined by the donor. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated purpose for which the resource was restricted has been fulfilled.

Donor-restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Donor-restricted contributions received and satisfied in the same year are reported as increases in contributions without donor restrictions. Such net assets consist of trusts valued at the present value (discounted at 3.4% and 3.5% at June 30, 2021 and 2020, respectively) of future gifts from irrevocable trusts held by the Foundation which name the Foundation as beneficiary.

Net assets with donor restrictions include the current value of a perpetual trust from which the Foundation is to receive the income in perpetuity. The principal is held in trust by a third party and will never revert to the Foundation.

The perpetual stream of income is viewed by the Foundation as a promise to give by the individual who established the trust and has been recorded at the fair value of the trust at June 30, 2021 and 2020, which closely approximates the net present value of the income stream, in perpetuity. Given the nature of the promise, the Foundation recorded this contribution as net assets with perpetual donor restrictions.

Income received is recorded based on the presence or absence of donor restrictions.

# THE LUTHERAN CHURCH—MISSOURI SYNOD FOUNDATION

## Notes to Financial Statements - Continued

June 30, 2021

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### Note A - Summary of Organization and Significant Accounting Policies (Continued)

Expenses related to the daily administration and operations of the Foundation are recorded in net assets without donor restrictions. The proceeds from matured trust agreements that are held for the benefit of the Foundation or that are undesignated as to a specific beneficiary are transferred to net assets without donor restrictions. The Foundation also receives gifts and other undesignated income. After providing for operating expenses, the remainder is available for distribution at the direction of the Board of Trustees of the Foundation.

#### **Other Accounting Policies**

##### ***Cash and Cash Equivalents***

For financial statement purposes, the Foundation considers currency, demand deposits, and liquid investments with a maturity of three months or less to be cash equivalents. The Foundation maintains cash balances at various major domestic financial institutions in amounts that at times may exceed federally insured limits. The Foundation has not incurred any losses as a result of the excess balances.

##### ***Investments***

Investments of the Foundation are held at a custodial bank. Investments include marketable fixed income and equity securities, as well as units in assorted mutual funds and/or commingled investment vehicles. All investments are stated at fair market value as determined by authorized pricing sources for the custodial bank. The custodial bank records transactions involving the Foundation's investments on the date the securities are purchased or sold. Income is accrued as earned and posted as collected by the custodial bank. Realized gains and losses on the sale of investments are the differences between the proceeds received and the cost of the securities sold. Gains and losses, both realized and unrealized, are recognized in the statement of activities for those assets owned by the Foundation.

##### ***Real Estate Held***

Real estate is initially recorded at its appraised value at the date of the gift. Real estate is carried at the lower of appraised or market value. Real estate can be held for immediate sale, or in custody for longer periods per a managed gift agreement.

##### ***Property and Equipment***

Property and equipment is carried at cost. Major renewals and betterments over \$5,000 are capitalized, and maintenance and repairs which do not improve or extend the life of the respective assets are charged against operations in the current period.

# THE LUTHERAN CHURCH—MISSOURI SYNOD FOUNDATION

## Notes to Financial Statements - Continued

June 30, 2021

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### Note A - Summary of Organization and Significant Accounting Policies (Continued)

#### ***Other Assets***

The Foundation is the owner and beneficiary of certain insurance policies that have been gifted over a number of years. The policies are carried at fair value, which equates to current cash surrender value. The insurance policies are unrestricted gifts to the Foundation. They are accompanied by “letters of request” from the donors who request that the proceeds from the insurance policies go to specific ministries. The “letters of request” are not binding on the Foundation for the purpose of financial reporting. The insurance policies are reflected in the financial statements under other assets (Note E).

#### ***Financial Instruments***

FASB ASC 825, *Financial Instruments*, requires disclosure of fair value information about financial instruments, whether or not recognized in the statement of financial position, for which it is practicable to estimate fair value. Financial instruments consisting of cash and cash equivalents, accrued interest and dividends receivable, investments, real estate held for sale, notes and loans receivable, real estate held for investment, and accounts payable are reported in the statements of financial position at carrying amounts which approximate fair value. Investments are reported at fair value as determined by authorized pricing sources for the custodial bank.

#### ***Revenue Recognition***

Fees are recognized as revenue during the period services are provided or according to the terms of the related trust administration and management services contracts, distribution services agreements, and other miscellaneous service agreements. Fees are primarily paid by individuals and church ministries for services provided by the Foundation.

#### ***Functional Expense Allocation***

The Foundation allocates expenses on a functional basis among various programs and supporting activities. Expenses that can be identified with a specific program and supporting activities are allocated directly according to their natural expenditure classifications. The nature of the organization precludes the Foundation from incurring significant fundraising expenses.

Certain categories of expenses are attributable to more than one program or supporting function and are allocated on a reasonable basis that is consistently applied. The expenses allocated are human resources, payroll, building services, and insurance. The allocable expenses are allocated based the number of staff members in each department in relation to total staff. Salary expense for executives is allocated based on estimated time and effort.

# THE LUTHERAN CHURCH—MISSOURI SYNOD FOUNDATION

## Notes to Financial Statements - Continued

June 30, 2021

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### Note A - Summary of Organization and Significant Accounting Policies (Continued)

#### ***Trust and Other Liabilities***

The trust and other liabilities due to donors and beneficiaries represents the liabilities necessary to meet agreed payments. The trust and other liabilities due to endowment, custodial, and agency accounts represents the liability for gifts received based on the original contribution plus earnings less reductions in the liability necessary to meet agreed payments.

Direct costs associated with the establishment of trust agreements are recognized as an expense of the trust as incurred.

Trustee fees to cover continuing administrative expenses are charged to the trusts and recognized as revenue by the Foundation on a current basis.

#### ***Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

#### ***Tax Status***

The Foundation follows accounting rules for uncertain tax positions. Those rules require financial statement recognition of the impact of a tax position if a position is more likely than not of being sustained on audit, based on the technical merits of the position. These rules also provide guidance on measurement, recognition, classification, interest and penalties, transition, and disclosure requirements for uncertain tax positions.

#### ***Reclassifications***

Certain amounts on the 2020 financials have been reclassified, where appropriate, to conform to the financial statement presentation used in 2021. Changes in net assets are unchanged due to the reclassifications.

#### ***Adoption of New Accounting Standard***

In May 2014, the FASB issued Accounting Standards Update (“ASU”) No. 2014-09, Revenue from Contracts with Customers (Topic 606). The ASU and all subsequently issued clarifying ASUs replaced most existing revenue recognition guidance in U.S. GAAP. The ASU also required expanded disclosures relating to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The Foundation adopted the new standard effective July 1, 2020, the first day of the Foundation’s fiscal year using the modified retrospective approach. As part of the adoption, the Foundation evaluated the reporting requirements of ASU 2014-09 and determined that implementation would not result in a significant adjustment to opening net assets.

# THE LUTHERAN CHURCH—MISSOURI SYNOD FOUNDATION

## Notes to Financial Statements - Continued

June 30, 2021

### Note A - Summary of Organization and Significant Accounting Policies (Continued)

#### *Subsequent Events*

Management has evaluated all subsequent events and transactions through September 15, 2021.

### Note B - Investments

The Foundation's investments at fair value were as follows (in thousands):

<u>June 30, 2021</u>	<u>Operating</u>	<u>Life Income</u>	<u>Gift Annuity</u>	<u>Endowment</u>	<u>Agency and Custodial</u>	<u>Total</u>
Common funds of the Foundation	\$ 27,276	\$ 165,764	\$ -	\$ 235,633	\$ 656,249	\$ 1,084,922
LCEF notes	-	-	-	2,011	3,955	5,966
Corporate stock	-	-	-	2	-	2
Other	4	1,781	18,397	-	64	20,246
	<u>\$ 27,280</u>	<u>\$ 167,545</u>	<u>\$ 18,397</u>	<u>\$ 237,646</u>	<u>\$ 660,268</u>	<u>\$ 1,111,136</u>

<u>June 30, 2020</u>	<u>Operating</u>	<u>Life Income</u>	<u>Gift Annuity</u>	<u>Endowment</u>	<u>Agency and Custodial</u>	<u>Total</u>
Common funds of the Foundation	\$ 22,413	\$ 139,136	\$ -	\$ 181,242	\$ 496,847	\$ 839,638
LCEF notes	1	-	-	2,007	4,198	6,206
Corporate stock	-	-	-	-	-	-
Other	4	1,866	18,143	-	67	20,080
	<u>\$ 22,418</u>	<u>\$ 141,002</u>	<u>\$ 18,143</u>	<u>\$ 183,249</u>	<u>\$ 501,112</u>	<u>\$ 865,924</u>



# THE LUTHERAN CHURCH—MISSOURI SYNOD FOUNDATION

## Notes to Financial Statements - Continued

June 30, 2021

### Note B - Investments (Continued)

Investment income consists of the following (in thousands):

<u>June 30, 2021</u>	<u>Operating</u>	<u>Life Income</u>	<u>Gift Annuity</u>	<u>Endowment</u>	<u>Agency and Custodial</u>	<u>Total</u>
Interest and dividends	\$ 495	\$ 3,560	\$ 316	\$ 3,694	\$ 11,162	\$ 19,227
Capital gains distributed	1,713	9,159	113	17,568	33,320	61,873
Net realized/unrealized gains	<u>3,438</u>	<u>22,123</u>	<u>2,877</u>	<u>36,344</u>	<u>89,898</u>	<u>154,680</u>
	<u>\$ 5,646</u>	<u>\$ 34,842</u>	<u>\$ 3,306</u>	<u>\$ 57,606</u>	<u>\$ 134,380</u>	<u>\$ 235,780</u>

  

<u>June 30, 2020</u>	<u>Operating</u>	<u>Life Income</u>	<u>Gift Annuity</u>	<u>Endowment</u>	<u>Agency and Custodial</u>	<u>Total</u>
Interest and dividends	\$ 531	\$ 4,024	\$ 416	\$ 3,823	\$ 11,444	\$ 20,238
Capital gains distributed	318	1,481	-	2,711	8,016	12,526
Net realized/unrealized gains/(losses)	<u>(201)</u>	<u>(1,938)</u>	<u>903</u>	<u>(3,298)</u>	<u>(7,112)</u>	<u>(11,646)</u>
	<u>\$ 648</u>	<u>\$ 3,567</u>	<u>\$ 1,319</u>	<u>\$ 3,236</u>	<u>\$ 12,348</u>	<u>\$ 21,118</u>

The common funds of the Foundation are as follows (in thousands):

	<u>June 30,</u>	
	<u>2021</u>	<u>2020</u>
Cash	\$ 49,894	\$ 10,971
Cash Equivalents	3,961	5,667
Corporate Bonds	43,994	38,795
Foreign Issues	10,079	7,598
Domestic Common Stocks	72,085	80,812
Foreign Stocks	3,945	3,945
Commingled Funds	<u>900,964</u>	<u>691,850</u>
	<u>\$ 1,084,922</u>	<u>\$ 839,638</u>

# THE LUTHERAN CHURCH–MISSOURI SYNOD FOUNDATION

## Notes to Financial Statements - Continued

June 30, 2021

### Note B - Investments (Continued)

The Foundation's assets are invested primarily in four asset classes, called Preference Funds. These funds are managed by 14 professional fund managers, with asset-class specific strategies. These Preference funds are included in the Foundation's Standard and Trust Funds, shown in the following schedule.

6/30/2021

(in thousands)

	Domestic Equity	International Equity	High Yield Bonds	Core Bonds	Other Investments	Cash and Pending Trades	Total Common Funds
SF Fixed Income	\$ -	\$ -	\$ 14,334	\$ 57,547	\$ -	\$ 4,986	\$ 76,867
SF Equity	75,497	49,414	-	-	-	8,071	132,982
SF Conservative Balanced	3,811	2,464	3,696	14,687	-	49	24,707
SF Moderate Balanced	46,509	29,467	14,765	59,263	-	16,339	166,342
SF Aggressive Balanced	116,325	74,886	11,215	50,214	-	19,631	272,270
TF Income Short	-	-	230	2,077	-	(5)	2,302
TF Income Intermediate	483	297	2,319	2,062	-	128	5,289
TF Income Long	490	314	3,595	747	-	142	5,288
TF Total Return Short	1,182	722	2,989	6,860	-	94	11,847
TF Total Return Intermediate	13,743	8,999	8,836	13,150	-	1,709	46,437
TF Total Return Long	31,979	20,681	14,231	6,919	-	4,756	78,566
Pooled Trust 1	-	-	160	637	-	6	804
Pooled Trust 2	-	-	479	1,905	-	17	2,401
Pooled Trust 3	949	624	981	530	-	(106)	2,977
Individual separate accts-HY Bond	-	-	15,844	-	-	714	16,558
Individual separate accts-Core Bond	-	-	-	59,809	-	412	60,221
Individual separate accts-DEQ	27,858	-	-	-	-	374	28,232
Individual separate accts-DEQ Passive	-	-	-	-	80,761	(941)	79,820
Individual separate accts-Int EQ	-	5,870	-	-	-	98	5,968
Individual separate accts-Int EQ Passive	-	-	-	-	51,709	(524)	51,185
<b>Total Preference Funds</b>	<b>318,824</b>	<b>193,738</b>	<b>93,674</b>	<b>276,408</b>	<b>132,470</b>	<b>55,950</b>	<b>1,071,063</b>
Thrivent Funds	-	-	-	-	12,284	234	12,518
Managed Portfolio	-	-	-	-	1,341	-	1,341
<b>Total Other Funds</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>13,625</b>	<b>234</b>	<b>13,859</b>
<b>TOTAL COMMON FUNDS</b>	<b>\$ 318,824</b>	<b>\$ 193,738</b>	<b>\$ 93,674</b>	<b>\$ 276,408</b>	<b>\$ 146,095</b>	<b>\$ 56,184</b>	<b>\$ 1,084,922</b>

# THE LUTHERAN CHURCH—MISSOURI SYNOD FOUNDATION

## Notes to Financial Statements - Continued

June 30, 2021

### Note B - Investments (Continued)

6/30/2020

(in thousands)

	Domestic Equity	International Equity	High Yield Bonds	Core Bonds	Other Investments	Cash and Pending Trades	Total Common Funds
SF Fixed Income	\$ -	\$ -	\$ 23,560	\$ 92,107	\$ -	\$ (142)	\$ 115,525
SF Equity	102,233	84,434	-	-	-	8,000	194,667
SF Conservative Balanced	2,787	2,282	2,938	11,618	-	415	20,040
SF Moderate Balanced	34,147	28,229	11,872	47,241	-	1,716	123,205
SF Aggressive Balanced	83,816	68,879	9,503	38,882	-	5,054	206,134
TF Income Short	-	-	196	1,727	-	(15)	1,908
TF Income Intermediate	449	365	2,330	2,019	-	(38)	5,125
TF Income Long	443	360	3,599	743	-	54	5,199
TF Total Return Short	1,158	956	3,287	7,358	-	(635)	12,124
TF Total Return Intermediate	11,297	9,300	7,779	11,408	-	(7)	39,777
TF Total Return Long	23,495	19,416	11,959	5,850	-	236	60,956
Pooled Trust 1	-	-	171	668	-	(6)	833
Pooled Trust 2	-	-	497	1,940	-	(14)	2,423
Pooled Trust 3	664	548	764	395	-	90	2,461
Individual Accounts-DEQ	20,699	-	-	-	-	(1,452)	19,247
Individual Accounts-IEQ	-	4,178	-	-	-	(787)	3,391
Individual Accounts-HY	-	-	4,964	-	-	(341)	4,623
Individual Accounts-CORE	-	-	-	11,272	-	(282)	10,990
Total Preference Funds	<u>281,188</u>	<u>218,947</u>	<u>83,419</u>	<u>233,228</u>	<u>-</u>	<u>11,846</u>	<u>828,628</u>
Thrivent Funds	-	-	-	-	9,407	465	9,872
Managed Portfolio	-	-	-	-	1,138	-	1,138
Total Other Funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,545</u>	<u>465</u>	<u>11,010</u>
<b>TOTAL COMMON FUNDS</b>	<b><u>\$ 281,188</u></b>	<b><u>\$ 218,947</u></b>	<b><u>\$ 83,419</u></b>	<b><u>\$ 233,228</u></b>	<b><u>\$ 10,545</u></b>	<b><u>\$ 12,311</u></b>	<b><u>\$ 839,638</u></b>

### Note C - Land, Building, and Equipment

Depreciation and amortization included in operating expenses was computed under the methods previously described and amounted to \$125,000 and \$127,000 for the years ended June 30, 2021 and 2020, respectively.

Land, building, and equipment consists of the following at June 30 (in thousands):

	<b><u>2021</u></b>	<b><u>2020</u></b>
Land	\$ 140	\$ 140
Building and improvements	2,210	2,201
Office equipment	56	56
Computer equipment	343	343
Automobiles	<u>210</u>	<u>211</u>
	<b><u>2,959</u></b>	<b><u>2,951</u></b>
Less accumulated depreciation and amortization	<b><u>1,951</u></b>	<b><u>1,826</u></b>
<b>Total</b>	<b><u>\$ 1,008</u></b>	<b><u>\$ 1,125</u></b>

# THE LUTHERAN CHURCH—MISSOURI SYNOD FOUNDATION

## Notes to Financial Statements - Continued

June 30, 2021

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### Note D - Beneficial Interest in Charitable Trusts

The Foundation is a named beneficiary of an irrevocable perpetual trust valued at \$1,451 and \$1,170 as of June 30, 2021 and 2020, respectively. This account is held by the Foundation and is included in net assets with donor restrictions by the Foundation.

### Note E - Other Assets

Other assets consist of the following at:

(In Thousands)	<u>2021</u>	<u>2020</u>
Insurance policies at cash surrender value	\$ 6,249	\$ 7,384
Prepaid insurance	197	168
Other assets	39	23
Accounts receivable	<u>76</u>	<u>74</u>
Total	<u>\$ 6,561</u>	<u>\$ 7,649</u>

### Note F - Trust and Other Liabilities

Trusts and other instruments are established by donors, beneficiaries, and related entities for the benefit of the Foundation, the Synod, related agencies, and donors. By donor or depositor type, trust and other liabilities represent the following:

#### ***Donors and Beneficiaries***

These accounts are comprised of trusts and gift annuities.

The Foundation is the issuer of gift annuity agreements under which the Foundation, in exchange for a transfer of cash or other property, is obligated to pay an annuity to one or two individuals (annuitants) for their remaining lives. The Foundation recognizes the assets transferred upon issuance of the gift annuity at their fair value. The contribution is decreased by a fixed dollar amount paid to the annuitant(s) throughout their lifetime and increased annually by earnings at a fixed rate of return based on the account balance. When the agreement terminates the account balance is distributed to ministry.

Trust accounts receive gifts of cash, securities, and real estate where the income earned is to be paid to the donor or a designee(s). At the death of the donor or successor(s), the remaining liability is paid in accordance with the trust agreement.

#### ***Endowment***

This account receives endowment gifts that are held by the Foundation primarily for other ministries of the Synod. Income is distributed to beneficiaries in accordance with donor instructions.

# THE LUTHERAN CHURCH—MISSOURI SYNOD FOUNDATION

## Notes to Financial Statements - Continued

June 30, 2021

### Note F - Trust and Other Liabilities (Continued)

#### *Custodial and Agency*

These agency and custodial accounts are held by the Foundation for other ministries and organizations of the Synod. Refer to Note L for additional information on the entities with amounts held by the Foundation.

The details of activity in these donor trust and other liabilities for the year ended June 30, 2021, are as follows (in thousands):

	Life Income Fund	Gift Annuity Fund	Endowment Fund	Custodial Fund	Agency Fund	Total
<b>ADDITIONS AND</b>						
<b>REALIZED REVENUES:</b>						
New agreements/deposits	\$ 7,547	\$ 928	\$ 8,857	\$ 78,746	\$ 17,721	\$ 113,799
Interest and dividends	3,560	1,147	3,694	11,156	13	19,570
Capital gains	9,159	113	17,567	33,302	18	60,159
Other	78	-	36	5	44	164
Total support and revenues	<u>20,344</u>	<u>2,188</u>	<u>30,154</u>	<u>123,209</u>	<u>17,796</u>	<u>193,692</u>
<b>LESS: DISTRIBUTIONS AND EXPENSES</b>						
Distributions	12,420	4,000	10,252	49,558	16,391	92,623
Operating expenses	<u>2,278</u>	<u>1,076</u>	<u>2,133</u>	<u>1,778</u>	<u>1,005</u>	<u>8,270</u>
Total distributions and expenses	<u>14,698</u>	<u>5,076</u>	<u>12,385</u>	<u>51,336</u>	<u>17,396</u>	<u>100,893</u>
Revenues over (under) expenses	5,646	(2,888)	17,769	17,873	400	92,799
Change in value of deferred gifts	(447)	50	(8,439)	-	-	(8,835)
Net realized/unrealized gains (losses)	<u>22,123</u>	<u>2,877</u>	<u>36,344</u>	89,791	107	<u>151,242</u>
Net additions (deductions)	<u>27,322</u>	39	45,674	161,663	507	<u>232,205</u>
<b>TOTAL LIABILITY JUNE 30, 2020</b>	<u>138,695</u>	<u>18,372</u>	<u>159,204</u>	<u>513,797</u>	<u>1,457</u>	<u>831,525</u>
<b>TOTAL LIABILITY JUNE 30, 2021</b>	<u>\$ 166,017</u>	<u>\$ 18,411</u>	<u>\$ 204,878</u>	<u>\$ 675,460</u>	<u>\$ 1,964</u>	<u>\$ 1,066,730</u>

# THE LUTHERAN CHURCH—MISSOURI SYNOD FOUNDATION

## Notes to Financial Statements - Continued

June 30, 2021

### Note F - Trust and Other Liabilities (Continued)

The details of activity in these donor trust and other liabilities for the year ended June 30, 2020, are as follows (in thousands):

	Life Income Fund	Gift Annuity Fund	Endowment Fund	Custodial Fund	Agency Fund	Total
ADDITIONS AND						
REALIZED REVENUES:						
New agreements/deposits	\$ 5,426	\$ 2,117	\$ 10,634	\$ 69,562	\$ 10,306	\$ 98,045
Interest and dividends	4,024	1,724	3,823	11,434	26	21,031
Capital gains	1,481	-	2,710	8,012	5	12,208
Other	449	175	45	-	1	670
Total support and revenues	<u>11,380</u>	<u>4,016</u>	<u>17,212</u>	<u>89,008</u>	<u>10,338</u>	<u>131,954</u>
LESS: DISTRIBUTIONS						
AND EXPENSES						
Distributions	15,545	4,196	8,797	35,781	8,929	73,248
Operating expenses	2,373	1,560	1,811	1,580	603	7,927
Total distributions and expenses	<u>17,918</u>	<u>5,756</u>	<u>10,608</u>	<u>37,361</u>	<u>9,532</u>	<u>81,175</u>
Revenues over (under) expenses	(6,538)	(1,740)	6,604	51,647	806	50,779
Change in value of deferred gifts	(412)	(2)	640	-	-	226
Net realized/unrealized gains (losses)	<u>(1,938)</u>	<u>902</u>	<u>(3,298)</u>	<u>(7,025)</u>	<u>(86)</u>	<u>(11,445)</u>
Net additions (deductions)	(8,888)	(840)	3,946	44,622	720	39,560
TOTAL LIABILITY JUNE 30, 2019	147,583	19,212	155,258	469,175	737	791,965
TOTAL LIABILITY JUNE 30, 2020	<u>\$ 138,695</u>	<u>\$ 18,372</u>	<u>\$ 159,204</u>	<u>\$ 513,797</u>	<u>\$ 1,457</u>	<u>\$ 831,525</u>

### Note G - Gift Annuities

The Foundation maintains a segregated gift annuity reserve fund (the "Gift Annuity Fund") consisting of assets set aside for the payment of annuity obligations to annuitants under charitable gift annuity agreements issued by the Foundation. Each year, the Gift Annuity Fund recognizes new agreements and deposits, the net gains or losses on gift values based on the investment income and market appreciation of invested assets, distributions to annuitants, releases of gift annuities and trustee fees to cover continuing investment, and administrative expenses of the Gift Annuity Fund.

#### **Investments**

Except for cash values of certain insurance policies of which the Foundation is both the owner and beneficiary and which have been designated by the Foundation as being held as part of the Gift Annuity Fund, the investments of the Gift Annuity Fund are mutual funds and are held at a custodial bank. All investments are stated at fair market value as determined by authorized pricing sources for the custodial bank based on quoted market prices. The custodial bank records transactions involving the Gift Annuity Fund's investments on the date the securities are purchased or sold. Income is accrued as earned and posted as collected by the custodial bank. Realized gains and losses on the sale of investments are the differences between the proceeds received and the cost of the securities sold. Gains and losses, both realized and unrealized, are recognized as changes in liability of the Gift Annuity Fund.

# THE LUTHERAN CHURCH—MISSOURI SYNOD FOUNDATION

## Notes to Financial Statements - Continued

June 30, 2021

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### Note G - Gift Annuities (Continued)

#### *Restrictions on Assets*

In accordance with the laws of California, the Gift Annuity Fund is required to maintain a reserve within investments sufficient enough to make payments to all outstanding annuitants residing in California. This reserve is equal to or greater than the reserve required by state law in California. In addition, although not required by law, separate investments are maintained for all outstanding annuitants in the state of Washington. The reserves held are sufficient to make payments to all annuitants.

#### *Gift Annuity Liability to Donors*

Liabilities for annuity obligations represent the actuarial present value of annuity payments that are expected to be paid to donors over the life of the annuity. These amounts are reviewed periodically by an actuary to determine their overall adequacy. Liabilities for future payments to donor-specified individuals are recorded using published actuarial life expectancies and interest rates credited to the individual accounts. A rate of 2.75% was applied for the year ended June 30, 2021; whereas rates ranging from 3.25% to 6.5% were applied for the year ended June 30, 2020. At June 30, 2021 and 2020, the gift annuity liability to donors totaled \$18,004,004 and \$20,525,720, respectively.

The following is a summary of total assets in excess of accounts payable and accrued expenses and the annuity liability to donors at June 30, 2021:

<b>Total Assets</b>	<b>\$ 24,480,141</b>
<b>Less: Accounts payable and accrued expenses</b>	<b>(15,868)</b>
<b>Annuity liability to donors</b>	<b><u>(18,004,004)</u></b>
<b>Excess of Assets</b>	<b><u>\$ 6,460,269</u></b>

The following is a summary of total assets in excess of accounts payable and accrued expenses and the annuity liability to donors at June 30, 2020:

Total Assets	\$ 25,666,403
Less: Accounts payable and accrued expenses	(15,485)
Annuity liability to donors	<u>(20,525,720)</u>
Excess of Assets	<u>\$ 5,125,198</u>

# THE LUTHERAN CHURCH—MISSOURI SYNOD FOUNDATION

## Notes to Financial Statements - Continued

June 30, 2021

### Note H - Net Assets

Net assets with donor restrictions were restricted for the following at June 30:

<i>(In Thousands)</i>	<u>2021</u>	<u>2020</u>
Timing Restriction		
Life income	\$ 3,157	\$ 2,710
Endowment	<u>7,518</u>	<u>2,556</u>
Total net assets with timing restrictions	<u>10,675</u>	<u>5,266</u>
Purpose Restriction		
Endowment	<u>1,944</u>	<u>1,637</u>
Total net assets with donor restrictions, temporary	\$ <u>12,619</u>	\$ <u>6,903</u>
Net assets subject to spending and distribution policy		
Endowments to be held in perpetuity	13,035	13,035
Beneficial interest in trust	<u>1,451</u>	<u>1,170</u>
Total net assets with donor restrictions	\$ <u>27,105</u>	\$ <u>21,108</u>

Net assets released for the years ended June 30 for:

<i>(In Thousands)</i>	<u>2021</u>	<u>2020</u>
Life income	\$ 26	\$ 200
Endowment	<u>74</u>	<u>72</u>
Total net assets released	\$ <u>100</u>	\$ <u>272</u>

Net assets without donor restrictions that were board designated at June 30 include:

<i>(In Thousands)</i>	<u>2021</u>	<u>2020</u>
Endowments	\$ 15,778	\$ 11,885
Gifted insurance policies	6,035	7,044
Gift annuity split interest agreements	466	516
Donor advised funds	<u>17,999</u>	<u>14,792</u>
Total Foundation designated net assets	\$ <u>40,278</u>	\$ <u>34,237</u>



# THE LUTHERAN CHURCH—MISSOURI SYNOD FOUNDATION

## Notes to Financial Statements - Continued

June 30, 2021

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### Note I - Liquidity and Availability of Resources

Financial assets available for general expenditure, that is, without donor or management restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

<i>(In Thousands)</i>	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 2,230	\$ 1,578
Other assets	84	77
Operating investments	7,545	6,156
Distributions from assets held under split-interest agreements	250	250
Distributions from beneficial interest in assets held by others	49	49
Endowment spending-rate distributions and appropriations	<u>125</u>	<u>125</u>
Total net assets released	<u>\$ 10,283</u>	<u>\$ 8,235</u>

In addition, the board designated fund of \$6,800,000 is subject to an annual spending rate of 4.0% as determined by the Foundation's Board of Trustees. Annual spending is not to exceed the endowment corpus.

The Foundation has a credit line of \$1,000,000 with the Lutheran Church Extension Fund. Although, the credit line has never been used, and the intention is not to use the available credit, these funds can be made available if necessary.

### Note J - Intentions to Give

At June 30, 2021 and 2020, the Foundation is a named beneficiary of revocable deferred gifts totaling \$2,754,800 and \$2,240,000, respectively. In accordance with the trust agreements, the donor has retained the option to change the named beneficiary. Therefore, no amounts have been recognized within these financial statements for the potential future benefits.

### Note K - Risks and Uncertainties

#### ***Credit Risks***

The Foundation invests in various investment securities. Investment securities are exposed to risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position.

# THE LUTHERAN CHURCH—MISSOURI SYNOD FOUNDATION

## Notes to Financial Statements - Continued

June 30, 2021

### Note L - Pension Expense

The Foundation participates in the worker benefit plans of the Synod. Substantially all full-time employees are covered by these plans. The Foundation contributes a fixed percentage of each participant's salary to defined benefit plans known as Concordia Retirement Plan and the Concordia Disability and Survivorship Plan. Retirement program expense was \$411,000 and \$414,000, and disability program expense was \$97,000 and \$97,000 for the years ended June 30, 2021 and 2020, respectively.

### Note M - Related Party Transactions

#### *Funds Held for Related Entities*

The Foundation provides investment services to various Synodical entities. Included in the trust and other liabilities of the Foundation are the following (in thousands):

	<u>June 30,</u>	
	<u>2021</u>	<u>2020</u>
Lutheran Church Extension Fund	\$ 1,498	\$ 1,386
The Lutheran Church—Missouri Synod	82,864	62,982
Colleges and seminaries	316,073	238,602
Districts, auxiliaries, related service organizations, congregations, and other	<u>274,120</u>	<u>209,949</u>
	<u>\$ 674,555</u>	<u>\$ 512,919</u>

### Note N - Fair Value Measurements

The Foundation follows FASB ASC 820-10, *Fair Value Measurements and Disclosures*, which establishes a framework for measuring fair value and expands disclosures about fair value measurements.

FASB ASC 820-10 defines fair value as the price that would be received to sell an asset or transfer a liability in an orderly transaction between market participants at the measurement date. The standard also establishes a fair value hierarchy used to disclose the measurement of fair value based on levels of observable or unobservable inputs.

#### **Level 1**

Observable inputs that are derived from quoted prices (unadjusted) for identical assets or liabilities in an active market.

#### **Level 2**

Observable inputs based on quoted prices in non-active markets or in active markets for similar assets or liabilities. Inputs other than quoted prices that are observable, or inputs that are not directly observable, but are corroborated by observable market data.

# THE LUTHERAN CHURCH—MISSOURI SYNOD FOUNDATION

## Notes to Financial Statements - Continued

June 30, 2021

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### Note N - Fair Value Measurements (Continued)

#### Level 3

Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities and reflect substantial management judgement or estimation utilizing available market data. Level 3 is comprised of real estate and LCEF notes.

Following is a description of the valuation methodologies used for assets and liabilities measured at fair value. There have been no changes in the methodologies used at June 30, 2021 and 2020.

Mutual Funds: Valued at the daily closing price as reported by the fund. Mutual funds held by the Foundation are open-end mutual funds that are registered with the U.S. Securities and Exchange Commission. These funds are required to publish their daily net asset value and to transact at that price.

Domestic Common Stocks, Foreign Stocks: Valued at the closing price reported on the active market on which the individual securities are traded.

Corporate Issues, Foreign Issues, Convertible Bonds, Municipal Bonds, Mortgage Pass Through Securities, Collateralized Mortgage Obligations: Valued using pricing models maximizing the use of observable inputs for similar securities. This includes basing value on yields currently available on comparable securities of issuers with similar credit ratings. When quoted prices are not available on identical or similar bonds, the securities are submitted for brokers to obtain quotes. As part of the pricing process, the appropriateness of each quote (i.e., as to whether the quote is based on observable market transactions or not) is assessed to determine the most appropriate estimate of fair value. Lastly, securities are priced using internal cash flow modeling techniques. These valuation methodologies commonly use the following inputs: reported trades, bids, offers, issuer spreads, benchmark yields, estimated prepayment speeds, and/or estimated cash flows.

Commingled Funds: Valued using the net asset value (NAV) per share, or its equivalent, as a practical expedient for fair value.

Real Estate: Valued using current appraised values and other market data for similar properties.

LCEF Notes: Valued using deposited account balances.

The Board of Trustees and their related committees, along with Management, determines the fair value measurement valuation policies and procedures, including those for Level 3 recurring and nonrecurring measurements. The Board of Trustees assesses and approves these policies and procedures. At least annually, the Board of Trustees determines (1) if the current valuation techniques used in fair value measurements are still appropriate and (2) evaluates and adjusts the unobservable inputs used in the fair value measurements based on current market conditions and third-party information.

# THE LUTHERAN CHURCH–MISSOURI SYNOD FOUNDATION

## Notes to Financial Statements - Continued

June 30, 2021

### Note N - Fair Value Measurements (Continued)

The Foundation recognizes transfers between levels in the fair value hierarchy at the end of the reporting period.

Fair values of assets measured on a recurring basis at June 30, 2021, are as follows (in thousands):

	Fair Value	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Other assets</b>				
Beneficial interest in charitable trusts	\$ 1,451	\$ -	\$ 1,451	\$ -
Real estate held	6,741	-	-	6,741
<b>Total other assets</b>	<b>\$ 8,192</b>	<b>\$ -</b>	<b>\$ 1,451</b>	<b>\$ 6,741</b>
<b>Investments</b>				
<b>Common funds</b>				
Cash equivalents	\$ 3,961	\$ -	\$ 3,961	\$ -
Corporate issues	43,994	-	43,994	-
Foreign issues	10,079	-	10,079	-
Domestic common stocks	72,085	72,085	-	-
Foreign stocks	3,945	3,945	-	-
<b>Total common funds</b>	<b>134,064</b>	<b>76,030</b>	<b>58,034</b>	<b>-</b>
<b>Other investments</b>				
LCEF notes	5,966	-	-	5,966
Mutual funds-equity	9,526	-	9,526	-
Mutual funds-fixed income	10,450	-	10,450	-
Mutual funds-tax exempt	3	-	3	-
Other	269	-	-	269
<b>Total other investments</b>	<b>26,214</b>	<b>-</b>	<b>19,979</b>	<b>6,235</b>
<b>Total other assets and investments required to be disclosed in the fair value hierarchy</b>	<b>160,278</b>	<b>\$ 76,030</b>	<b>\$ 78,013</b>	<b>\$ 6,235</b>
Common funds cash	49,894			
Commingled funds	900,964			
<b>Total other assets and investments</b>	<b>\$ 1,119,328</b>			
<b>Beneficial interest in charitable trusts</b>	<b>\$ 1,451</b>			
Real estate held for sale	913			
Real estate held in custody	5,828			
Investments	1,111,136			
<b>Total</b>	<b>\$ 1,119,328</b>			

# THE LUTHERAN CHURCH—MISSOURI SYNOD FOUNDATION

## Notes to Financial Statements - Continued

June 30, 2021

### Note N - Fair Value Measurements (Continued)

Changes in assets measured on a recurring basis using significant unobservable inputs (Level 3 inputs) (in thousands):

Level 3 inputs by category	Real Estate	LCEF	Other	Total
June 30, 2020	\$ 6,857	\$ 6,206	\$ 413	\$ 13,476
Additions	1,520	70	40	1,630
Change in value	-	-	-	-
Sales or pay down of principal	(1,636)	(310)	(184)	(2,130)
June 30, 2021	<u>\$ 6,741</u>	<u>\$ 5,966</u>	<u>\$ 269</u>	<u>\$ 12,976</u>

Fair values of assets measured on a recurring basis at June 30, 2020, are as follows (in thousands):

	Fair Value	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Other assets				
Beneficial interest in charitable trusts	\$ 1,170	\$ -	\$ 1,170	\$ -
Real estate held	6,857	-	-	6,857
Total other assets	<u>\$ 8,027</u>	<u>\$ -</u>	<u>\$ 1,170</u>	<u>\$ 6,857</u>
Investments				
Common funds				
Cash equivalents	\$ 5,667	\$ -	\$ 5,667	\$ -
Corporate issues	38,795	-	38,795	-
Foreign issues	7,598	-	7,598	-
Domestic common stocks	80,812	80,812	-	-
Foreign stocks	3,945	3,945	-	-
Total common funds	<u>136,817</u>	<u>84,757</u>	<u>52,060</u>	<u>-</u>
Other investments				
Domestic common stocks	-	-	-	-
LCEF notes	6,206	-	-	6,206
Mutual funds-equity	10,532	-	10,532	-
Mutual funds-fixed income	9,128	-	9,128	-
Mutual funds-tax exempt	7	-	7	-
Exchange traded funds-equity	-	-	-	-
Other	413	-	-	413
Total other investments	<u>26,286</u>	<u>-</u>	<u>19,667</u>	<u>6,619</u>
Total other assets and investments required to be disclosed in the fair value hierarchy	163,103	<u>\$ 84,757</u>	<u>\$ 71,727</u>	<u>\$ 6,619</u>
Common funds cash	10,971			
Commingled funds	691,850			
Total other assets and investments	<u>\$ 873,951</u>			
Beneficial interest in charitable trusts	\$ 1,170			
Real estate held for sale	1,028			
Real estate held in custody	5,829			
Investments	865,924			
Total	<u>\$ 873,951</u>			

# THE LUTHERAN CHURCH—MISSOURI SYNOD FOUNDATION

## Notes to Financial Statements - Continued

June 30, 2021

### Note N - Fair Value Measurements (Continued)

Changes in assets measured on a recurring basis using significant unobservable inputs (Level 3 inputs) (in thousands):

Level 3 inputs by category	<u>Real Estate</u>	<u>LCEF</u>	<u>Other</u>	<u>Total</u>
June 30, 2019	\$ 6,232	\$ 6,139	\$ 210	\$ 12,581
Additions	1,723	67	951	2,741
Change in value	-	-	(701)	(701)
Sales or pay down of principal	(1,098)	-	(47)	(1,145)
June 30, 2020	<u>\$ 6,857</u>	<u>\$ 6,206</u>	<u>\$ 413</u>	<u>\$ 13,476</u>

The following tables summarize investments measured at fair value based on NAV per share as of June 30:

<u>Investment Name</u>	<u>2021</u>			
	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Commingled funds	\$ 900,964	-	Daily to Monthly	Daily

  

<u>Investment Name</u>	<u>2020</u>			
	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Commingled funds	\$ 691,850	-	Daily to Monthly	Daily

### Note O - Endowments

The Foundation's endowments include both donor-restricted and board designated endowments. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds, including funds designated by the Board of Trustees, are classified and reported based on the existence or absence of donor-imposed restrictions.

#### Net Asset Classifications and Interpretation of Relevant Law

The Foundation is governed subject to its By-Laws. The Board of Trustees of the Foundation has interpreted the relevant Missouri state law as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as net assets with perpetual donor restrictions at (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

# THE LUTHERAN CHURCH—MISSOURI SYNOD FOUNDATION

## Notes to Financial Statements - Continued

June 30, 2021

### Note O - Endowments (Continued)

#### Endowment Investment and Spending Policies

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a stable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment account. The Foundation's spending and investment policies work together to achieve this stated objective. The Foundation's established investment objectives are (a) to preserve the purchasing power of the endowment assets and the related revenue stream over time, (b) to manage the endowment assets in a single investment pool with equities being the dominant asset class, (c) to employ multiple funds to gain the diversification benefits of different asset classes, and (d) to earn an average annual real total return, after inflation and expenses, of at least 4% per year.

Change in Endowment Net Asset (in thousands):

	Without Donor Restrictions	With Donor Restrictions	Total
<b>June 30, 2021</b>			
Endowment net assets, beginning of year	\$ 11,885	\$ 17,228	\$ 29,113
Interest and dividends, net of investment expenses	1,437	2,053	3,490
Net appreciation (depreciation)	2,280	3,687	5,967
Contributions	828	452	1,280
Amounts appropriated for expenditure	<u>(652)</u>	<u>(923)</u>	<u>(1,575)</u>
Change in endowment net assets	<u>3,893</u>	<u>5,269</u>	<u>9,162</u>
Endowment net assets, end of year	<u>\$ 15,778</u>	<u>\$ 22,497</u>	<u>\$ 38,275</u>
	Without Donor Restrictions	With Donor Restrictions	Total
<b>June 30, 2020</b>			
Endowment net assets, beginning of year	\$ 12,260	\$ 17,617	\$ 29,877
Interest and dividends, net of investment expenses	432	621	1,053
Net appreciation (depreciation)	(214)	(318)	(532)
Contributions	9	236	245
Amounts appropriated for expenditure	<u>(602)</u>	<u>(928)</u>	<u>(1,530)</u>
Change in endowment net assets	<u>(375)</u>	<u>389</u>	<u>(764)</u>
Endowment net assets, end of year	<u>\$ 11,885</u>	<u>\$ 17,228</u>	<u>\$ 29,113</u>

# THE LUTHERAN CHURCH–MISSOURI SYNOD FOUNDATION

## Notes to Financial Statements - Continued

June 30, 2021

### Note O - Endowments (Continued)

Endowment Asset Composition by Type of Fund as of June 30, 2021 and 2020 (in thousands):

<u>June 30, 2021</u>	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Board-designated endowment funds	\$ 15,778	\$ -	\$ 15,778
Donor-restricted endowment funds			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	15,865	15,865
Accumulated investment earnings	-	6,632	6,632
Endowment net assets, end of year	<u>\$ 15,778</u>	<u>\$ 22,497</u>	<u>\$ 38,275</u>
<u>June 30, 2020</u>	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Board-designated endowment funds	\$ 11,885	\$ -	\$ 11,885
Donor-restricted endowment funds			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	14,922	14,922
Accumulated investment earnings	-	2,306	2,306
Endowment net assets, end of year	<u>\$ 11,885</u>	<u>\$ 17,228</u>	<u>\$ 29,113</u>

### Note P – Revenue Recognition

The Foundation has various streams of fee revenue, as described in Note A above. Fee revenue includes trust administration and management services fees, distribution fees, and other miscellaneous fees.

The Foundation acts as a service provider on behalf of individuals and church ministries and recognizes trust administration and management services fee revenue during the month in which management services are provided. Management has elected to apply a practical expedient to recognize trust administration and management services fee revenue on a portfolio basis when recognizing revenue from contracts whose terms and conditions are similar in nature. The Foundation does not refund these fees and therefore, no liability for refunds is reported at June 30, 2021 and 2020.

Management evaluates distribution fees and other miscellaneous fees on a contract-by-contract basis. Distribution fees are earned at a point in time when an individual or church ministry account is closed and all funds have been disbursed. Other miscellaneous fees are earned at a point in time upon the completion of a single performance obligation, including successful filing of various tax forms and completion of other miscellaneous services.



# THE LUTHERAN CHURCH–MISSOURI SYNOD FOUNDATION

## Notes to Financial Statements - Continued

June 30, 2021

### Note P – Revenue Recognition (Continued)

#### *Disaggregation of Revenue*

The following tables present revenue disaggregated by revenue source and pattern of revenue recognition (in thousands):

	<u>Year Ended June 30, 2021</u>		
	<u>Over Time</u>	<u>Point In Time</u>	<u>Total Revenues</u>
Trust administration and management services	\$ 6,134	\$ -	\$ 6,134
Distribution fees	-	1,298	1,298
Contract revenue	780	-	780
Other miscellaneous fees	-	221	221
<b>Total Fee Revenues</b>	<b>\$ 6,914</b>	<b>\$ 1,519</b>	<b>\$ 8,433</b>

  

	<u>Year Ended June 30, 2020</u>		
	<u>Over Time</u>	<u>Point In Time</u>	<u>Total Revenues</u>
Trust administration and management services	\$ 5,494	\$ -	\$ 5,494
Distribution fees	-	1,024	1,024
Contract revenue	757	-	757
Other miscellaneous fees	-	234	234
<b>Total Fee Revenues</b>	<b>\$ 6,251</b>	<b>\$ 1,258</b>	<b>\$ 7,509</b>